

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**CRIT LUALLEN
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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Scott County, Kentucky, for the year ended December 31, 2002.

We engaged Kapp & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC evaluated the Scott County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SCOTT COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

Kapp & Company, PLLC has completed the Scott County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$91,539 from the prior calendar year, resulting in excess fees of \$678,007 as of December 31, 2002. Gross receipts increased by \$95,582 from the prior year and disbursements increased by \$5,941.

Report Comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds. However, the Sheriff did not have a written agreement with the financial institution to protect the deposits.

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Kapp & Company, PLLC

Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Scott County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable Bobby Hammons, Scott County Sheriff
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In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
September 19, 2003

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Fees For Services:

Waiting on Court	\$ 20,926	
Return of Fugitives	<u>6,847</u>	\$ 27,773

Circuit Court Clerk:

Sheriff Security Service	\$ 52,194	
Fines and Fees Collected	3,682	
Court Ordered Payments	<u>1,374</u>	57,250

Fiscal Court		66,706
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County Clerk - Delinquent Taxes		2,422
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Commission On Taxes Collected		455,458
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Fees Collected For Services:

Auto Inspections	\$ 13,185	
Accident and Police Reports	6,573	
Serving Papers	49,233	
Carrying Concealed Deadly Weapon Permits	10,005	
Commissions on Executions	940	
Sheriff's Fees on Taxes	52,581	
Advertising Fees	2,595	
Miscellaneous	<u>2,283</u>	137,395

Interest Earned		<u>11,081</u>
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Total Receipts		<u>\$ 758,085</u>
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The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

Payments to State Treasurer	\$	6,745
Other Charges- Miscellaneous		<u>6,627</u>
Total Disbursements	\$	<u>13,372</u>
Net Receipts	\$	744,713
Less: Statutory Maximum		<u>66,706</u>
Excess Fees	\$	678,007
Payments to County Treasurer - Monthly		<u>606,433</u>
Balance Due at Completion of Audit	\$	<u><u>71,574</u></u>

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2002, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of January 14, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$4,001,550 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

Note 4. Drug Forfeiture Account

The Scott County Sheriff's office maintains a Drug Forfeiture account with Farmer's Bank. This account holds money confiscated during drug arrests and does not have to be included in the Sheriff's excess fee calculation. There was no activity in this account during 2002. The ending balance in the account as of December 31, 2002 was \$156.

COMMENTS AND RECOMMENDATIONS

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On January 14, 2002, \$4,001,550 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Sheriff's Response:

This has been taken care of for 2003.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

No response.

SCOTT COUNTY
BOBBY HAMMONS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2002
(Continued)

PRIOR YEAR:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

These comments are repeated because the Sheriff has not implemented compensating controls recommended in the prior year audit to offset the lack of segregation of duties. Also, a written agreement has not been obtained to protect deposits.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Scott County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
September 19, 2003

